

MEMORANDUM

TO: Roy Thilly, Chair
NERC Board of Trustees

FROM: Jack Cashin, Director, Policy Analysis and Reliability Standards, American Public Power Association
John Di Stasio, President, Large Public Power Council
John Twitty, Executive Director, Transmission Access Policy Study Group

DATE: October 25, 2017

SUBJECT: Response to Request for Policy Input to NERC Board of Trustees

The American Public Power Association, Large Public Power Council, and Transmission Access Policy Study Group concur with the Policy Input submitted today by the State/Municipal and Transmission Dependent Utility Sectors of the Member Representatives Committee, in response to NERC Board Chair Roy Thilly's October 5, 2017 letter requesting policy input in advance of the November 8-9, 2017 NERC Board of Trustees meetings.



MEMORANDUM

TO: Roy Thilly, Chair
NERC Board of Trustees

FROM: Carol Chinn
Vicken Kasarjian
William J. Gallagher
David Osburn

DATE: October 25, 2017

SUBJECT: Response to Request for Policy Input to NERC Board of Trustees

The Sector 2 and 5 members of the NERC Member Representatives Committee (MRC), representing State/Municipal and Transmission Dependent Utilities (SM-TDUs), appreciate the opportunity to respond to your letter dated October 5, 2017 to Mr. John Twitty, Chair of the MRC, requesting policy input on the ERO Enterprise CMEP Program Alignment Process and the DOE's "Staff Report to the Secretary on Electricity Markets and Reliability," during the upcoming meetings of the NERC Board of Trustees (BOT), Board committees, and the MRC on November 8-9, 2017.

Summary of Comments

➤ **Item 1: ERO Enterprise CMEP Program Alignment Process**

- SM-TDUs believe that proactive increased stakeholder engagement can help the CMEP Program Alignment process to reach its potential, but it is premature to assess its effectiveness.
- To enhance transparency, SM-TDUs suggest some initial changes such as broader stakeholder outreach, human interaction with the third party or the CCC, and resolution transparency.
- The Standards Efficiency Review and the Technical Rational effort can complement the CMEP Program Alignment initiative by recognizing that more collaboration is needed between standards and compliance during the Standards Development process.

➤ **Item 2: Department of Energy's "Staff Report to the Secretary on Electricity Markets and Reliability"**

- SM-TDUs do not support adding resilience to NERC's mission statement. Rather, we urge NERC to remain focused on NERC's statutorily defined mission of Bulk-Power System reliability, recognizing that doing so will contribute to resilience.

- SM-TDUs believe NERC should continue to explore grid reliability and security topics with Canada and Mexico.

Item 1: ERO Enterprise CMEP Program Alignment Process

The BOT seeks input from MRC sectors on three specific questions regarding NERC's development of the Compliance, Monitoring, and Enforcement Program (CMEP) framework for addressing consistency concerns. The letter characterizes that the intent of the framework is to balance consistency with fairness, while protecting reliability and avoiding unnecessary costs and burdens. The following are the SM-TDUs responses to the BOT's questions:

- 1. As structured, will the process be effective in capturing and resolving alignment issues in CMEP?*

Based on the project and process description, the SM-TDUs believe that the ERO CMEP alignment process has the potential to be effective, but it is too early to tell. As the process moves forward, it is critical that NERC develops a range of tools and processes that are available to registered entities, that encourage entities to bring forward potential alignment issues for consideration. To that end, we offer some initial observations regarding two of the sources identified in the Policy Input Letter: the Consistency Reporting Tool and NERC's Compliance and Certification Committee (CCC).

Regarding the Consistency Reporting Tool, the SM-TDUs appreciate the steps NERC has taken to rebrand the former regional consistency tool, but caution that many of the features that were problematic in the original tool will not be addressed simply by rebranding. The initial consistency tool was hampered by anonymous reports that the third-party could not follow-up on. The SM-TDUs appreciate that, as part of the new CMEP Program Alignment Process, anonymous reporting entities are put on notice that they should follow-up on reports with the application to see if additional information is needed. However, a hot-line or some human interface, rather than just an "application," would help ensure that the report is clear and can be appropriately processed. This would ensure that the report is efficiently handled, while preserving the anonymity of the entity providing the input. Public power believes that the tool will work best with a channel for two-way communication that still facilitates anonymity. Establishing trust from the outset will be critical to the success of the alignment process.

Many of the items submitted to the initial consistency tool highlighted issues associated with items regarding the communication interface between a registered entity and the Regional Entities (REs). The SM-TDUs assume that many of these issues may be addressed by the proposed NERC CMEP Technology project. Therefore, if such input came in now, it is not clear how it would get sent by the CMEP Program Alignment Process to the appropriate area for resolution. For such issues, the CMEP Program Alignment Process description does not detail how issues that come to the Consistency Reporting Tool will get evaluated and potentially referred for resolution. Public power believes there should be a process established to handle such input.

Turning to the role of the CCC, the SM-TDUs are pleased that the CCC is anticipated to be used as a resource to "frame the extent and condition of the alignment issue and provide suggested

resolutions for ERO Enterprise consideration.” We support the framework outlined in the August 2017 ERO Program Alignment Efforts paper, as well as the timeline NERC has suggested for finalizing a process to evaluate alignment issues. The CCC can serve as a valuable resource in this regard, especially for registered entities that are interested in raising a program alignment issue while remaining anonymous to NERC. The entire program will clearly benefit as program alignment issues are raised, evaluated, and resolved, but that will only occur if multiple approaches are available for registered entities to provide input, including the option of having that information submitted anonymously or communicating directly with the CCC.

While the structure appears to be a more effective way to *capture* alignment issues, *resolving* the inconsistency is another matter. It is not clear how the ERO will resolve inconsistencies, and what process will be used to determine whether an issue needs to be consistent across North America, or if it is an appropriate matter to allow for regional differences. Accordingly, the SM-TDUs encourage NERC to take a more proactive approach to address inconsistency, and engage the stakeholders, to assist in determining the best way to resolve matters. To this end, public power appreciates the BOT recognizing the need for consistency to be addressed by NERC rather than by the REs. Since the inception of mandatory requirements, stakeholders have been reluctant to identify any potential inconsistency for fear that the identified RE may resent such a report. This is not to suggest that the REs would be unfair, but rather that RE self-oversight was not going to provide the proper appearance and assurance to stakeholders.

It is important to note that this CMEP Program Alignment is mainly focused on process. There are two other ERO efforts underway that can help with eliminating some of the inconsistency matters with regards to standards compliance expectations, the Standards Efficiency review and Technical Rationale efforts. If both these efforts recognize that standards and compliance need to work together, we can be proactive going forward in eliminating the source of many inconsistency issues. It is problematic to develop standards without compliance in the room. Registered entities and REs are finding inconsistencies in compliance expectations after standard implementation.

To be consistent when there is compliance uncertainty, the Regions and NERC compliance staff meet to determine compliance expectations after a standard is enforceable. While the Regions/NERC may settle on compliance expectations, there can be a difference with what the Standard Development Team and the registered entities anticipated when the standard was developed and balloted. We need to close this gap between standards and compliance up front in the Standards Development process. The Standards Efficiency and the Technical Rationale efforts can complement the CMEP Program Alignment initiative.

2. *Will the process provide the appropriate level of transparency to stakeholders?*

As an initial point, SM-TDUs believe the ERO [CMEP Implementation Plan](#), CMEP Alignment Process, and the proposed NERC CMEP Technology Project need to work like three legs of a stool to support overall CMEP success. Transparency between the three areas is important for stakeholders to understand the CMEP’s overall success, and how each area fits with the other legs of the stool. For example, the individual Region CMEP programs as outlined in the 2017 ERO CMEP Implementation Plan (Version 2.5) differ significantly. Whether the differences will be

resolved through the Alignment Process or the proposed NERC CMEP Technology process is not clear at this juncture.

The specific transparency in the current process is provided by postings on the NERC website, the Issues and Tracking spreadsheet, and outreach to the Compliance and Certification Committee. While this is helpful, additional outreach and communication would be beneficial to the development of a robust process by engaging a broader spectrum of the industry. The spreadsheet, for example, details several items being worked on, and stakeholders are pleased to see this. However, the status of such items while they work through the process is not apparent. Additionally, it is not clear where there is information on past items that have been resolved. Accordingly, we recommend NERC provide periodic status reports to the broader industry. Quarterly reports at the NERC BOT's meetings are appropriate, but more detailed reports should be issued separately.

Item 2: Department of Energy's "Staff Report to the Secretary on Electricity Markets and Reliability"

- 1. Recognizing that resilience is a shared responsibility, a key part of reliability, and supported by NERC's reliability standards and other programs in numerous ways, should NERC formally add resilience to its mission statement as recommended in the DOE Grid Study?*

SM-TDUs do not support adding resilience to NERC's mission statement. While the DOE Grid Study (at 126) recommends that NERC "consider" adding resilience to its mission statement, NERC's responsibility under Section 215 of the Federal Power Act, as the Electric Reliability Organization certified by and under the oversight of FERC (an independent agency), is focused on reliable operation of the Bulk Power System (BPS). Particularly given the absence of clear definition of resilience and its potentially broad scope, adding resilience to NERC's mission statement would directly risk expanding NERC's scope outside of its statutory authority. Rather, SM-TDUs urge NERC to remain focused on NERC's statutorily defined mission of BPS reliability, recognizing that doing so will also contribute to resilience.

- 2. What roles and activities should NERC take on, if any, beyond current activities supporting bulk power system resilience?*

Consistent with our response to the first question, SM-TDUs do not believe that NERC should undertake roles and activities for the purpose of addressing resilience. However, we recognize that actions undertaken by NERC as part of its BPS reliability responsibilities will likely enhance resilience.

NERC has the responsibility to ensure that the grid is reliable and that users, owners, and operators of the BPS are compliant with the requirements that ensure reliable grid operation. NERC's Long-term Reliability Assessment (LTRA) and other reliability and performance assessments rightly take account of our changing resource mix. SM-TDUs support the efforts of the Essential Reliability Services Working (ERSWG) group and the developed measures and parameters for frequency response, voltage, and ramping for Balancing Authorities. SM-TDUs also support the current draft LTRA which identifies regional fuel diversity and increased integration of Distributed Energy

Resources (DER), including storage, as fast oncoming reliability challenges. Such technical assessments and their communication to policy makers is an important piece of NERC's mission. As stakeholders expressed in reviewing assessments planned in 2016, NERC should address issues consistent with its defined role and identified priorities for reliability of the BPS. SM-TDUs support activities such as these, which are directed toward NERC's Bulk-Power System reliability responsibilities, recognizing that these activities also provide resilience benefits.

In short, NERC should continue to pursue actions such as those listed above, as well as those identified in the October 5 letter, along with active engagement with stakeholders and such groups as the North American Transmission Forum, to fulfill NERC's Bulk-Power System reliability responsibilities. Recognizing that improved resilience will likely be an added benefit of these efforts, resilience should not be their focus.

3. Are there grid reliability and security topics that should be further explored with Canada and Mexico?

SM-TDUs believe NERC should continue to explore grid reliability and security topics with Canada and Mexico. NERC has a long-standing relationship with Canada and has begun to develop a broader relationship with Mexico. Working with both North American partners will best ensure reliability and security consistent with U.S. protocols, and should be pursued.

Specifically, as Mexico transforms its electricity market, NERC's engagement will help ensure Mexico addresses reliability risks, namely cyber security. Cyber security continues to evolve and grow in importance, and as Mexico develops market initiatives to transform its grid, NERC should provide any technical assistance needed.

Additionally, to the extent cross-border electrical interconnections and gas pipelines support reliability of the Bulk Electric System, NERC's technical expertise may be able to assist the U.S. approval requirements. To the extent NERC can help streamline the international border processes, the SM-TDUs encourage NERC to take a more proactive approach and leverage its experience to support the reliability aspects of cross-border interconnections.

Thank you for the opportunity to provide this policy input.